

GUARANTY FEDERAL BANCSHARES INC
Form 10-Q
May 10, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 0-23325

Guaranty Federal Bancshares, Inc.
(Exact name of registrant as specified in its charter)
Delaware 43-1792717

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

1341 West Battlefield
Springfield, Missouri
(Address of principal executive offices)

65807
(Zip Code)

Registrant's telephone number, including area code: (417) 520-4333

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act. Yes No

Edgar Filing: GUARANTY FEDERAL BANCSHARES INC - Form 10-Q

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of May 1, 2013
Common Stock, Par Value \$0.10 per share	2,731,519 Shares

GUARANTY FEDERAL BANCSHARES, INC.

TABLE OF CONTENTS

Page

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements	
Condensed Consolidated Financial Statements (Unaudited):	
Condensed Consolidated Statements of Financial Condition	3
Condensed Consolidated Statements of Income	4
Condensed Consolidated Statements of Comprehensive Income	5
Condensed Consolidated Statements of Stockholders' Equity	6
Condensed Consolidated Statements of Cash Flows	8
Notes to Condensed Consolidated Financial Statements	9
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	29
Item 3. Quantitative and Qualitative Disclosures about Market Risk	34
Item 4. Controls and Procedures	35
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	36
Item 1A. Risk factors	36
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	36
Item 3. Defaults Upon Senior Securities	36
Item 4. Mine Safety Disclosures	36
Item 5. Other Information	36
Item 6. Exhibits	36
Signatures	

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
MARCH 31, 2013 (UNAUDITED) AND DECEMBER 31, 2012

ASSETS	3/31/13	12/31/12
Cash	\$2,637,215	\$3,360,102
Interest-bearing deposits in other financial institutions	40,057,756	38,303,303
Cash and cash equivalents	42,694,971	41,663,405
Available-for-sale securities	107,435,939	101,980,644
Held-to-maturity securities	136,350	181,042
Stock in Federal Home Loan Bank, at cost	3,133,600	3,805,500
Mortgage loans held for sale	1,314,333	2,843,757
Loans receivable, net of allowance for loan losses of March 31, 2013 - \$8,112,081 - December 31, 2012 - \$8,740,325	451,892,450	465,531,973
Accrued interest receivable:		
Loans	1,621,985	1,674,814
Investments and interest-bearing deposits	304,006	380,555
Prepaid expenses and other assets	6,090,023	6,228,173
Prepaid FDIC deposit insurance premiums	1,305,631	1,438,636
Foreclosed assets held for sale	3,913,629	4,529,727
Premises and equipment	11,201,029	11,286,410
Bank owned life insurance	13,756,253	13,657,480
Income taxes receivable	968,474	910,174
Deferred income taxes	4,203,098	4,319,928
	\$649,971,771	\$660,432,218

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

Deposits	\$503,644,217	\$500,014,715
Federal Home Loan Bank advances	52,950,000	68,050,000
Securities sold under agreements to repurchase	25,000,000	25,000,000
Subordinated debentures	15,465,000	15,465,000
Advances from borrowers for taxes and insurance	251,704	152,867
Accrued expenses and other liabilities	872,299	481,382
Accrued interest payable	347,804	399,684
	598,531,024	609,563,648

COMMITMENTS AND CONTINGENCIES

- -

STOCKHOLDERS' EQUITY

Capital Stock:

Series A preferred stock, \$0.01 par value; authorized 2,000,000 shares; issued and outstanding March 31, 2013 and December 31, 2012 - 12,000 shares	11,837,905	11,789,276
Common stock, \$0.10 par value; authorized 10,000,000 shares; issued March 31, 2013 and December 31, 2012 - 6,781,803 shares;	678,180	678,180

Edgar Filing: GUARANTY FEDERAL BANCSHARES INC - Form 10-Q

Common stock warrants; March 31, 2013 and December 31, 2012 - 459,459 shares	1,377,811	1,377,811
Additional paid-in capital	58,168,547	58,267,529
Retained earnings, substantially restricted	40,078,316	39,324,292
Accumulated other comprehensive income		
Unrealized appreciation on available-for-sale securities, net of income taxes	504,126	800,826
	112,644,885	112,237,914
Treasury stock, at cost; March 31, 2013 and December 31, 2012 - 4,049,112 and 4,056,862 shares, respectively	(61,204,138)	(61,369,344)
	51,440,747	50,868,570
	\$649,971,771	\$660,432,218

See Notes to Condensed Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2013 AND 2012 (UNAUDITED)

	3/31/2013	3/31/2012
Interest Income		
Loans	\$5,928,390	\$6,403,838
Investment securities	432,629	412,344
Other	58,402	49,740
	6,419,421	6,865,922
Interest Expense		
Deposits	761,174	1,142,796
Federal Home Loan Bank advances	368,675	383,734
Subordinated debentures	134,350	139,845
Other	163,955	183,775
	1,428,154	1,850,150
Net Interest Income	4,991,267	5,015,772
Provision for Loan Losses	400,000	900,000
Net Interest Income After Provision for Loan Losses	4,591,267	4,115,772
Noninterest Income		
Service charges	261,785	255,090
Gain on sale of investment securities	88,801	37,529
Gain on sale of loans	431,933	362,354
Loss on foreclosed assets	(72,345)	(101,109)
Other income	309,594	293,148
	1,019,768	847,012
Noninterest Expense		
Salaries and employee benefits	2,392,362	2,335,096
Occupancy	426,129	391,474
FDIC deposit insurance premiums	142,463	216,206
Data processing	169,260	132,187
Advertising	106,251	75,000
Other expense	1,189,135	897,545
	4,425,600	4,047,508
Income Before Income Taxes	1,185,435	915,276
Provision for Income Taxes	232,782	80,554
Net Income	952,653	834,722
Preferred Stock Dividends and Discount Accretion	198,630	281,391
Net Income Available to Common Shareholders	\$754,023	\$553,331
Basic Income Per Common Share		
Basic Income Per Common Share	\$0.28	\$0.20
Diluted Income Per Common Share		
Diluted Income Per Common Share	\$0.25	\$0.20

See Notes to Condensed Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 THREE MONTHS ENDED MARCH 31, 2013 AND 2012 (UNAUDITED)

	3/31/2013	3/31/2012
NET INCOME	\$952,653	\$834,722
OTHER ITEMS OF COMPREHENSIVE INCOME:		
Change in unrealized gain (losses) on investment securities available-for-sale, before income taxes	(382,151)	51,986
Less: Reclassification adjustment for realized gains on investment securities included in net income, before income taxes	(88,801)	(37,529)
Total other items in comprehensive income (loss)	(470,952)	14,457
Income tax (benefit) expense related to other items of comprehensive income	(174,252)	5,349
Other comprehensive income (loss)	(296,700)	9,108
TOTAL COMPREHENSIVE INCOME	\$655,953	\$843,830

See Notes to Condensed Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2013 (UNAUDITED)

	Preferred Stock	Common Stock	Common Stock Warrants	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2013	\$11,789,276	\$678,180	\$1,377,811	\$58,267,529	\$(61,369,344)	\$39,324,292	\$800,826	\$50,868,5
Net income	-	-	-	-	-	952,653	-	952,653
Change in unrealized appreciation on available-for-sale securities, net of income taxes	-	-	-	-	-	-	(296,700)	(296,700)
Preferred stock discount accretion	48,629	-	-	-	-	(48,629)	-	-
Preferred stock dividends (5%)	-	-	-	-	-	(150,000)	-	(150,000)
Stock award plans	-	-	-	(98,982)	250,795	-	-	151,813
Treasury stock purchased	-	-	-	-	(85,589)	-	-	(85,589)
Balance, March 31, 2013	\$11,837,905	\$678,180	\$1,377,811	\$58,168,547	\$(61,204,138)	\$40,078,316	\$504,126	\$51,440,7

See Notes to Condensed Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2012 (UNAUDITED)

	Preferred Stock	Common Stock	Common Stock Warrants	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulat Other Comprehens Income
Balance, January 1, 2012	\$16,425,912	\$677,980	\$1,377,811	\$58,333,614	\$ (204,930)	\$(61,623,816)	\$38,456,991	\$791,285
Net income	-	-	-	-	-	-	834,722	-
Change in unrealized appreciation on available-for-sale securities, net of income taxes	-	-	-	-	-	-	-	9,108
Preferred stock discount accretion	68,890	-	-	-	-	-	(68,890)	-
Preferred stock dividends (5%)	-	-	-	-	-	-	(212,500)	-
Stock award plans	-	-	-	(137,857)	-	280,208	-	-
Treasury stock purchased	-	-	-	-	-	(5,718)	-	-
Release of ESOP shares	-	-	-	(15,142)	57,000	-	-	-
Balance, March 31, 2012	\$16,494,802	\$677,980	\$1,377,811	\$58,180,615	\$ (147,930)	\$(61,349,326)	\$39,010,323	\$800,393

See Notes to Condensed Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2013 AND 2012 (UNAUDITED)

	3/31/2013	3/31/2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$952,653	\$834,722
Items not requiring (providing) cash:		
Deferred income taxes	291,082	78,243
Depreciation	190,529	172,206
Provision for loan losses	400,000	900,000
Gain on loans and investment securities	(520,734)	(399,883)
Loss on sale of foreclosed assets	28,668	126,123
Amortization of deferred income, premiums and discounts	125,496	(9,256)
Stock award plan expense	151,813	142,351
Origination of loans held for sale	(14,924,339)	(16,156,200)
Proceeds from sale of loans held for sale	16,885,696	17,825,983
Release of ESOP shares	-	41,858
Increase in cash surrender value of bank owned life insurance	(98,773)	(81,378)
Changes in:		
Prepaid FDIC deposit insurance premiums	133,005	206,473
Accrued interest receivable	129,378	125,676
Prepaid expenses and other assets	138,150	141,808
Accounts payable and accrued expenses	339,037	(13,813)
Income taxes receivable	(58,300)	91,925
Net cash provided by operating activities	4,163,361	4,026,838
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in loans	13,045,066	17,164,343
Principal payments on available-for-sale securities	3,288,268	3,243,419
Principal payments on held-to-maturity securities	44,692	9,992
Proceeds from maturities of available-for-sale securities	9,000,000	1,000,000
Purchase of premises and equipment	(105,148)	(171,961)
Purchase of available-for-sale securities	(25,537,986)	(28,758,430)
Proceeds from sale of available-for-sale securities	7,269,770	9,213,301
Purchase of bank owned life insurance	-	(2,500,000)
Proceeds from maturities of interest-bearing deposits	-	5,587,654
Redemption of FHLB stock	671,900	-
Proceeds from sale of foreclosed assets held for sale	798,893	805,593
Net cash provided by investing activities	8,475,455	5,593,911
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand deposits, NOW accounts and savings accounts	14,086,253	6,381,502
Net decrease in certificates of deposit	(10,456,751)	(6,746,712)
Repayments of FHLB advances	(15,100,000)	-
Advances from borrowers for taxes and insurance	98,837	97,273
Preferred cash dividends paid	(150,000)	(212,500)
Treasury stock purchased	(85,589)	(5,718)
Net cash used in financing activities	(11,607,250)	(486,155)
INCREASE IN CASH AND CASH EQUIVALENTS	1,031,566	9,134,594
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	41,663,405	26,574,082

CASH AND CASH EQUIVALENTS, END OF PERIOD	\$42,694,971	\$35,708,676
--	--------------	--------------

See Notes to Condensed Consolidated Financial Statements

8

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Guaranty Federal Bancshares, Inc.'s (the "Company") Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission (the "SEC"). The results of operations for the periods are not necessarily indicative of the results to be expected for the full year. The condensed consolidated statement of financial condition of the Company as of December 31, 2012, has been derived from the audited consolidated balance sheet of the Company as of that date. Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted.

Note 2: Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Guaranty Bank (the "Bank"). All significant intercompany transactions and balances have been eliminated in consolidation.

Note 3: Securities

The amortized cost and approximate fair values of securities classified as available-for-sale were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of March 31, 2013				
Equity Securities	\$ 102,212	\$ 7,471	\$ (25,921)	\$ 83,762
Debt Securities:				
U. S. government agencies	41,989,994	128,679	(138,607)	41,980,066
Municipals	10,179,787	175,250	(99,387)	10,255,650
Corporate bonds	2,834,775	81,978	(7,524)	2,909,229
Government sponsored mortgage-backed securities	51,528,971	1,042,982	(364,721)	52,207,232
	\$ 106,635,739	\$ 1,436,360	\$ (636,160)	\$ 107,435,939

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2012				
Equity Securities	\$ 102,212	\$ 306	\$ (31,604)	\$ 70,914
Debt Securities:				
U. S. government agencies	38,188,554	202,213	(39,706)	38,351,061
Municipals	10,212,376	250,269	(84,456)	10,378,189
Corporates	1,839,976	67,889	-	1,907,865
Government sponsored mortgage-backed securities	50,366,374	1,304,242	(398,001)	51,272,615
	\$ 100,709,492	\$ 1,824,919	\$ (553,767)	\$ 101,980,644

Maturities of available-for-sale debt securities as of March 31, 2013:

	Amortized Cost	Approximate Fair Value
1-5 years	\$ 14,643,095	\$ 14,795,637
6-10 years	33,942,191	33,882,822
After 10 years	6,419,270	6,466,486
Government sponsored mortgage-backed securities not due on a single maturity date	51,528,971	52,207,232
	\$ 106,533,527	\$ 107,352,177

The amortized cost and approximate fair values of securities classified as held to maturity are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of March 31, 2013				
Debt Securities:				
Government sponsored mortgage-backed securities	\$ 136,350	\$ 4,097	\$ -	\$ 140,447

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2012				
Debt Securities:				
Government sponsored mortgage-backed securities	\$ 181,042	\$ 12,440	\$ -	\$ 193,482

Maturities of held-to-maturity securities as of March 31, 2013:

	Amortized Cost	Approximate Fair Value
Government sponsored mortgage-backed securities not due on a single maturity date	\$ 136,350	\$ 140,447
	\$ 136,350	\$ 140,447

The book value of securities pledged as collateral, to secure public deposits and for other purposes, amounted to \$76,683,442 and \$56,022,882 as of March 31, 2013 and December 31, 2012, respectively. The approximate fair value of pledged securities amounted to \$77,459,399 and \$57,384,685 as of March 31, 2013 and December 31, 2012, respectively.

Realized gains and losses are recorded as net securities gains. Gains on sales of securities are determined on the specific identification method. Gross gains of \$88,801 and \$37,529 as of March 31, 2013 and March 31, 2012, respectively, were realized from the sale of available-for-sale securities. The tax effect of these net gains was \$32,856 and \$13,886 as of March 31, 2013 and March 31, 2012, respectively.

The Company evaluates all securities quarterly to determine if any unrealized losses are deemed to be other than temporary. Certain investment securities are valued at less than their historical cost. These declines are primarily the result of the rate for these investments yielding less than current market rates, or declines in stock prices of equity securities. Based on evaluation of available evidence, management believes the declines in fair value for these securities are temporary. It is management's intent to hold the debt securities to maturity or until recovery of the unrealized loss. Should the impairment of any of these debt securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified, to the extent the loss is related to credit issues, and to other comprehensive income to the extent the decline on debt securities is related to other factors and the Company does not intend to sell the security prior to recovery of the unrealized loss.

Certain other investments in debt and equity securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at March 31, 2013 and December 31, 2012, was \$52,854,862 and \$30,121,495, respectively, which is approximately 49% and 29% of the Company's investment portfolio. These declines primarily resulted from changes in market interest rates and failure of certain investments to meet projected earnings targets.

The following table shows gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2013 and December 31, 2012.

March 31, 2013						
Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equity Securities	\$-	\$-	\$45,613	\$(25,921)	\$45,613	\$(25,921)
U. S. government agencies	24,587,030	(138,607)	-	-	24,587,030	(138,607)
Municipals	3,820,175	(60,458)	1,061,013	(38,929)	4,881,188	(99,387)
Corporate bonds	980,290	(7,524)	-	-	980,290	(7,524)
Government sponsored mortgage-backed securities	22,360,741	(364,721)	-	-	22,360,741	(364,721)
	\$51,748,236	\$(571,310)	\$1,106,626	\$(64,850)	\$52,854,862	\$(636,160)
December 31, 2012						
Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equity Securities	\$-	\$-	\$39,930	\$(31,604)	\$39,930	\$(31,604)
U. S. government agencies	7,298,687	(39,706)	-	-	7,298,687	(39,706)
Municipals	2,648,047	(76,318)	538,300	(8,138)	3,186,347	(84,456)
Government sponsored mortgage-backed securities	19,596,531	(398,001)	-	-	19,596,531	(398,001)
	\$29,543,265	\$(514,025)	\$578,230	\$(39,742)	\$30,121,495	\$(553,767)

Note 4: Loans and Allowance for Loan Losses

Categories of loans at March 31, 2013 and December 31, 2012 include:

	March 31, 2013	December 31, 2012
Real estate - residential mortgage:		
One to four family units	\$ 97,753,551	\$ 99,381,934
Multi-family	46,505,351	46,405,034
Real estate - construction	51,863,948	48,917,296
Real estate - commercial	154,733,461	167,760,850
Commercial loans	91,270,559	95,226,762
Consumer and other loans	17,997,090	16,716,858
Total loans	460,123,960	474,408,734
Less:		
Allowance for loan losses	(8,112,081)	(8,740,325)
Deferred loan fees/costs, net	(119,429)	(136,436)
Net loans	\$ 451,892,450	\$ 465,531,973

Classes of loans by aging at March 31, 2013 and December 31, 2012 were as follows:

As of March 31,
2013

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
(In Thousands)							
Real estate - residential mortgage:							
One to four family units	\$143	\$62	\$299	\$504	\$97,250	\$97,754	\$-
Multi-family	-	-	-	-	46,505	46,505	-
Real estate - construction	-	-	216	216	51,648	51,864	-
Real estate - commercial	-	-	-	-	154,733	154,733	-
Commercial loans	1,708	187	370	2,265	89,006	91,271	-
Consumer and other loans	103	12	-	115	17,882	17,997	-
Total	\$1,954	\$261	\$885	\$3,100	\$457,024	\$460,124	\$-

As of December
31, 2012

	30-59 Days Past Due	60-89 Days Past Due	Greater Than	Total Past Due	Current	Total Loans Receivable	Total Loans >
--	------------------------	------------------------	-----------------	-------------------	---------	---------------------------	------------------

90 Days

90 Days
and
Accruing

(In Thousands)

Real estate - residential mortgage:							
One to four family units	\$52	\$4	\$-	\$56	\$99,326	\$99,382	\$-
Multi-family	-	-	-	-	46,405	46,405	-
Real estate - construction	22	28	640	690	48,227	48,917	-
Real estate - commercial	-	352	-	352	167,409	167,761	-
Commercial loans	10	610	785	1,405	93,822	95,227	-
Consumer and other loans	57	-	-	57	16,660	16,717	-
Total	\$141	\$994	\$1,425	\$2,560	\$471,849	\$474,409	\$-

Nonaccruing loans are summarized as follows:

	March 31, 2013	December 31, 2012
Real estate - residential mortgage:		
One to four family units	\$ 2,131,482	\$ 2,280,856
Multi-family	-	-
Real estate - construction	5,935,085	6,274,241
Real estate - commercial	3,333,545	3,663,771
Commercial loans	3,969,730	2,793,457
Consumer and other loans	291,522	318,963
Total	\$ 15,661,364	\$ 15,331,288

The following tables present the activity in the allowance for loan losses based on portfolio segment for the three months ended March 31, 2013 and 2012:

March 31, 2013	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total	
Construction (In Thousands)								
Allowance for loan losses:								
Balance, beginning of period	\$2,525	\$ 2,517	\$1,316	\$ 284	\$ 1,689	\$ 255	\$ 154	\$8,740
Provision charged to expense	156	(420)	(26)	1	109	40	540	\$400
Losses charged off	(438)	(186)	(60)	-	(373)	(33)	-	\$(1,090)
Recoveries	10	-	4	-	35	13	-	\$62
Balance, end of period	\$2,253	\$ 1,911	\$1,234	\$ 285	\$ 1,460	\$ 275	\$ 694	\$8,112
March 31, 2012								
Construction (In Thousands)	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total	
Allowance for loan losses:								
Balance, beginning of period	\$2,508	\$ 2,725	\$1,735	\$ 390	\$ 1,948	\$ 372	\$ 935	\$10,613
Provision charged to expense	721	359	(24)	(1)	(163)	26	(18)	\$900
Losses charged off	-	(478)	(108)	-	-	(19)	-	\$(605)
Recoveries	10	14	3	-	31	8	-	\$66
Balance, end of period	\$3,239	\$ 2,620	\$1,606	\$ 389	\$ 1,816	\$ 387	\$ 917	\$10,974

Edgar Filing: GUARANTY FEDERAL BANCSHARES INC - Form 10-Q

The following tables present the recorded investment in loans based on portfolio segment and impairment method as of March 31, 2013 and December 31, 2012:

March 31, 2013	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
(In Thousands)								
Allowance for loan losses:								
Ending balance: individually evaluated for impairment	\$170	\$ -	\$21	\$ -	\$ 423	\$52	\$ -	\$666
Ending balance: collectively evaluated for impairment	\$2,083	\$ 1,911	\$1,213	\$ 285	\$ 1,037	\$223	\$ 694	\$7,446
Loans:								
Ending balance: individually evaluated for impairment	\$5,936	\$ 5,079	\$2,196	\$ -	\$ 3,969	\$366	\$ -	\$17,546
Ending balance: collectively evaluated for impairment	\$45,928	\$ 149,654	\$95,558	\$ 46,505	\$ 87,302	\$17,631	\$ -	\$442,578
December 31, 2012								
Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total	
(In Thousands)								
Allowance for loan losses:								
Ending balance: individually evaluated for impairment	\$608	\$ 180	\$90	\$ -	\$ 441	\$48	\$ -	\$1,367
Ending balance: collectively evaluated for impairment	\$2,087	\$ 2,167	\$1,226	\$ 284	\$ 1,248	\$207	\$ 154	\$7,373
Loans:								
Ending balance: individually evaluated for impairment	\$6,275	\$ 5,673	\$2,360	\$ -	\$ 2,555	\$414	\$ -	\$17,277
Ending balance: collectively evaluated for	\$42,642	\$ 162,088	\$97,022	\$ 46,405	\$ 92,672	\$16,303	\$ -	\$457,132

impairment

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Bank's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans.

The following table summarizes the recorded investment in impaired loans at March 31, 2013 and December 31, 2012:

	March 31, 2013			December 31, 2012		
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Recorded Balance	Unpaid Principal Balance	Specific Allowance
(In Thousands)						
Loans without a specific valuation allowance						
Real estate - residential mortgage:						
One to four family units	\$2,112	\$2,199	\$-	\$2,245	\$2,271	\$-
Multi-family	-	-	-	-	-	-
Real estate - construction	5,321	6,266	-	5,015	5,575	-
Real estate - commercial	5,079	5,404	-	2,430	2,755	-
Commercial loans	1,557	1,860	-	318	689	-
Consumer and other loans	103	103	-	103	103	-
Loans with a specific valuation allowance						
Real estate - residential mortgage:						
One to four family units	\$92	\$92	\$21	\$115	\$130	\$90
Multi-family	-	-	-	-	-	-
Real estate - construction	614	614	170	1,260	1,260	608
Real estate - commercial	-	-	-	3,243	3,243	180
Commercial loans	2,412	2,723	423	2,237	2,237	441
Consumer and other loans	264	264	52	311	311	48
Total						
Real estate - residential mortgage:						
One to four family units	\$2,204	\$2,291	\$21	\$2,360	\$2,401	\$90
Multi-family	-	-	-	-	-	-
Real estate - construction	5,935	6,880	170	6,275	6,835	608
Real estate - commercial	5,079	5,404	-	5,673	5,998	180

Edgar Filing: GUARANTY FEDERAL BANCSHARES INC - Form 10-Q

Commercial loans	3,969	4,583	423	2,555	2,926	441
Consumer and other loans	367	367	52	414	414	48
Total	\$17,554	\$19,525	\$666	\$17,277	\$18,574	\$1,367

16

The following table summarizes average impaired loans and related interest recognized on impaired loans for the three months ended March 31, 2013 and 2012:

	For the Three Months Ended March 31, 2013		For the Three Months Ended March 31, 2012	
	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
(In Thousands)				
Loans without a specific valuation allowance				
Real estate - residential mortgage:				
One to four family units	\$2,140	\$2	\$1,409	\$5
Multi-family	-	-	-	-
Real estate - construction	5,107	-	985	-
Real estate - commercial	3,190	23	5,650	13
Commercial loans	643	1	1,903	6
Consumer and other loans	102	-	383	8
Loans with a specific valuation allowance				
Real estate - residential mortgage:				
One to four family units	\$107	\$-	\$604	\$-
Multi-family	-	-	-	-
Real estate - construction	1,104	-	7,021	-
Real estate - commercial	2,245	-	3,513	-
Commercial loans	2,281	-	2,270	-
Consumer and other loans	374	-	266	-
Total				
Real estate - residential mortgage:				
One to four family units	\$2,247	\$2	\$2,013	\$5
Multi-family	-	-	-	-
Real estate - construction	6,211	-	8,006	-
Real estate - commercial	5,435	23	9,163	13
Commercial loans	2,924	1	4,173	6
Consumer and other loans	476	-	649	8
Total	\$17,293	\$26	\$24,004	\$32

At March 31, 2013, the Bank's impaired loans shown in the table above included loans that were classified as "troubled debt restructurings (TDR)". The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession.

In assessing whether or not a borrower is experiencing financial difficulties, the Bank considers information currently available regarding the financial condition of the borrower. This information includes, but is not limited to, whether (i) the debtor is currently in payment default on any of its debt; (ii) a payment default is probable in the foreseeable future without the modification; (iii) the debtor has declared or is in the process of declaring bankruptcy and (iv) the debtor's projected cash flow is sufficient to satisfy the contractual payments due under the original terms of the loan without a modification.

The Bank considers all aspects of the modification to loan terms to determine whether or not a concession has been granted to the borrower. Key factors considered by the Bank include the debtor's ability to access funds at a market rate for debt with similar risk characteristics, the significance of the modification relative to unpaid principal balance or collateral value of the debt, and the significance of a delay in the timing of payments relative to the original contractual terms of the loan. The most common concessions granted by the Bank generally include one or more modifications to the terms of the debt, such as (i) a reduction in the interest rate for the remaining life of the debt, (ii) an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, (iii) a reduction on the face amount or maturity amount of the debt as stated in the original loan, (iv) a temporary period of interest-only payments, (v) a reduction in accrued interest, and (vi) an extension of amortization.

The following table summarizes, by class, loans that were newly classified as TDRs for the three months ended March 31, 2013:

	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Real estate - residential mortgage:			
One to four family units	-	\$ -	\$ -
Multi-family	-	-	-
Real estate - construction	1	266,098	266,098
Real estate - commercial	2	3,275,179	3,297,014
Commercial loans	1	997,917	1,222,917
Consumer and other loans	-	-	-
Total	4	\$ 4,539,194	\$ 4,786,029

The following table summarizes, by type of concession, loans that were newly classified as TDRs for the three months ended March 31, 2013:

	Interest Rate	Term	Combination	Total Modification
Real estate - residential mortgage:				
One to four family units	\$ -	\$ -	\$ -	\$ -
Multi-family	-	-	-	-
Real estate - construction	-	266,098	-	266,098
Real estate - commercial	-	-	3,297,014	3,297,014
Commercial loans	1,222,917	-	-	1,222,917
Consumer and other loans	-	-	-	-
Total	\$ 1,222,917	\$ 266,098	\$ 3,297,014	\$ 4,786,029

During the three months ended March 31, 2012, there were no new loans modified that met the definition of a TDR.

The following table presents the carrying balance of TDRs as of March 31, 2013 and December 31, 2012:

	March 31, 2013	December 31, 2012
Real estate - residential mortgage:		
One to four family units	\$ 1,593,596	\$ 1,653,934
Multi-family	-	-
Real estate - construction	6,052,236	6,229,201
Real estate - commercial	5,120,540	2,246,508
Commercial loans	2,743,801	1,851,099
Consumer and other loans	-	-
Total	\$ 15,510,173	\$ 11,980,742

The Bank has allocated \$2,022,585 and \$169,538 of specific reserves to customers whose loan terms have been modified in TDR as of March 31, 2013 and December 31, 2012.

There were no TDRs for which there was a payment default within twelve months following the modification during the three months ending March 31, 2013 and 2012. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

As part of the on-going monitoring of the credit quality of the Bank's loan portfolio, management tracks loans by an internal rating system. All loans are assigned an internal credit quality rating based on an analysis of the borrower's financial condition. The criteria used to assign quality ratings to extensions of credit that exhibit potential problems or well-defined weaknesses are primarily based upon the degree of risk and the likelihood of orderly repayment, and their effect on the Bank's safety and soundness. The following are the internally assigned ratings:

Pass-This rating represents loans that have strong asset quality and liquidity along with a multi-year track record of profitability.

Special mention-This rating represents loans that are currently protected but are potentially weak. The credit risk may be relatively minor, yet constitute an increased risk in light of the circumstances surrounding a specific loan.

Substandard-This rating represents loans that show signs of continuing negative financial trends and unprofitability and therefore, is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any.

Doubtful-This rating represents loans that have all the weaknesses of substandard classified loans with the additional characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Risk characteristics applicable to each segment of the loan portfolio are described as follows.

Real estate-Residential 1-4 family: The residential 1-4 family real estate loans are generally secured by owner-occupied 1-4 family residences. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Bank's market areas that might impact either property values or a borrower's personal income. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Real estate-Construction: Construction and land development real estate loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. Sources of repayment of these loans may include permanent loans, sales of developed property or an interim loan commitment from the Bank until permanent financing is obtained. These loans are considered to be higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Bank's market areas.

Real estate-Commercial: Commercial real estate loans typically involve larger principal amounts, and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Bank's market areas.

Commercial: The commercial portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions. The loans in this category are repaid primarily from the cash flow of a borrower's principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations.

Consumer: The consumer loan portfolio consists of various term and line of credit loans such as automobile loans and loans for other personal purposes. Repayment for these types of loans will come from a borrower's income sources that are typically independent of the loan purpose. Credit risk is driven by consumer economic factors (such as unemployment and general economic conditions in the Bank's market area) and the creditworthiness of a borrower.

The following tables provide information about the credit quality of the loan portfolio using the Bank's internal rating system as of March 31, 2013 and December 31, 2012:

March 31, 2013	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Total
Rating:							
Pass	\$38,967	\$144,482	\$93,332	\$45,240	\$85,241	\$17,038	\$424,300
Special Mention	6,962	4,302	1,328	1,265	625	104	14,586
Substandard	5,666	5,949	3,065	-	5,405	855	20,940
Doubtful	269	-	29	-	-	-	298
Total	\$51,864	\$154,733	\$97,754	\$46,505	\$91,271	\$17,997	\$460,124

December 31, 2012	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Total
Rating:							
Pass	\$35,775	\$156,448	\$94,209	\$45,133	\$88,230	\$15,840	\$435,635
Special Mention	6,868	4,976	1,636	1,272	2,255	93	17,100
Substandard	5,581	6,337	3,507	-	4,742	784	20,951
Doubtful	693	-	30	-	-	-	723
Total	\$48,917	\$167,761	\$99,382	\$46,405	\$95,227	\$16,717	\$474,409

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees net of certain direct origination costs, are deferred and amortized as a level yield adjustment over the respective term of the loan.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Note 5: Benefit Plans

The Company has stock-based employee compensation plans, which are described in the Company's December 31, 2012 Annual Report on Form 10-K.

The table below summarizes transactions under the Company's stock option plans for three months ended March 31, 2013:

	Number of shares		Weighted Average Exercise Price
	Incentive Stock Option	Non-Incentive Stock Option	
Balance outstanding as of January 1, 2013	174,500	167,000	\$ 16.38
Granted	-	-	-
Exercised	-	-	-
Forfeited	-	(2,000)	15.31
Balance outstanding as of March 31, 2013	174,500	165,000	16.38
Options exercisable as of March 31, 2013	150,600	140,500	18.21

Stock-based compensation expense, consisting of stock options and restricted stock awards, recognized for the three months ended March 31, 2013 and 2012 was \$35,782 and \$32,342, respectively. As of March 31, 2013, there was \$70,632 of unrecognized compensation expense related to nonvested stock options and \$97,393 of unrecognized compensation expense related to nonvested restricted stock awards, which will be recognized over the remaining vesting period.

In January 2013, the Company granted restricted stock to directors pursuant to the 2010 Equity Plan that was fully vested and thus, expensed in full during the three months ended March 31, 2013. The amount expensed was \$116,032 for the quarter which represents 16,576 shares of common stock at a market price of \$7.00 at the date of grant.

Note 6: Income Per Common Share

	For three months ended March 31, 2013		
	Income Available to Common Stockholders	Average Common Shares Outstanding	Per Common Share
Basic Income per Common Share	\$ 754,023	2,739,351	\$ 0.28
Effect of Dilutive Securities		227,977	
Diluted Income per Common Share	\$ 754,023	2,967,328	\$ 0.25

	For three months ended March 31, 2012		
	Income Available to Common Stockholders	Average Common Shares Outstanding	Per Common Share
Basic Income per Common Share	\$ 553,331	2,707,192	\$ 0.20
Effect of Dilutive Securities		124,147	
Diluted Income per Common Share	\$ 553,331	2,831,339	\$ 0.20

Stock options to purchase 200,500 and 211,500 shares of common stock were outstanding during the three months ended March 31, 2013 and 2012, respectively, but were not included in the computation of diluted income per common share because their exercise price was greater than the average market price of the common shares.

Note 7: New Accounting Pronouncements

In January 2013, FASB issued ASU No. 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The update clarifies the scope of transactions that are subject to the disclosures about offsetting. The update clarifies that ordinary trade receivables and receivables are not in the scope of Accounting Standards update No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. Specifically, update 2011-11 applies only to derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in FASB Accounting Standards Codification or subject to a master netting arrangement or similar agreement. The update was effective for the Company January 1, 2013, and did not have a material impact on the Company's financial position or results of operations.

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, to improve the transparency of reporting reclassifications out of accumulated other comprehensive income. The amendments in the update do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this update requires already is required to be disclosed elsewhere in the financial statements under U.S. GAAP. The new amendments will require an organization to present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income—but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. Or, the organization may cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. The update was effective for the Company January 1, 2013, and did not have a material impact on the Company's financial position or results of operations.

Note 8: Disclosures about Fair Value of Assets and Liabilities

ASC Topic 820, Fair Value Measurements, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

The following is a description of the inputs and valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial condition, as well as the general classification of such assets pursuant to the valuation hierarchy.

Available-for-sale securities: Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include equity securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. For these investments, the inputs used by the pricing service to determine fair value may include one or a combination of observable inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bid offers and reference data market research publications and are classified within Level 2 of the valuation hierarchy. Level 2 securities include U.S. government agencies and government sponsored mortgage-backed securities. The Company has no Level 3 securities.

The following table presents the fair value measurements of assets recognized in the accompanying statements of financial condition measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at March 31, 2013 and December 31, 2012 (dollar amounts in thousands):

3/31/2013				
Financial assets:				
	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Equity securities	\$ 84	\$ -	\$ -	\$ 84
Debt securities:				
U.S. government agencies	-	41,980	-	41,980
Municipals	-	10,256	-	10,256
Corporate Bonds	-	2,909	-	2,909
Government sponsored mortgage-backed securities	-	52,207	-	52,207
Available-for-sale securities	\$ 84	\$ 107,352	\$ -	\$ 107,436

12/31/2012

Financial assets:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Equity securities	\$ 71	\$ -	\$ -	\$ 71
Debt securities:				
U.S. government agencies	-	38,351	-	38,351
Municipals	-	10,378	-	10,378
Corporate Bonds	-	1,908	-	1,908
Government sponsored mortgage-backed securities	-	51,273	-	51,273
Available-for-sale securities	\$ 71	\$ 101,910	\$ -	\$ 101,981

The following is a description of the valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying statements of financial condition, as well as the general classification of such assets pursuant to the valuation hierarchy.

Foreclosed Assets Held for Sale: Fair value is estimated using recent appraisals, comparable sales and other estimates of value obtained principally from independent sources, adjusted for selling costs. Foreclosed assets held for sale are classified within Level 3 of the valuation hierarchy.

Impaired loans (Collateral Dependent): Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for determining the amount of impairment include estimating fair value using the fair value of the collateral for collateral dependent loans.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value. Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at March 31, 2013 and December 31, 2012 (dollar amounts in thousands):

Impaired loans:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
March 31, 2013	\$ -	\$ -	\$ 8,888	\$ 8,888
December 31, 2012	\$ -	\$ -	\$ 10,557	\$ 10,557

Foreclosed assets held for sale:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
March 31, 2013	\$ -	\$ -	\$ 23	\$ 23
December 31, 2012	\$ -	\$ -	\$ 3,883	\$ 3,883

There were no transfers between valuation levels for any asset during the three months ended March 31, 2013 or 2012. If valuation techniques are deemed necessary, the Company considers those transfers to occur at the end of the period when the assets are valued.

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurement (dollar amounts in thousands):

	Fair Value March 31, 2013	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans (collateral dependent)	\$ 7,367	Market Comparable	Discount to reflect realizable value	0% - 100% (8%)
Impaired loans	\$ 1,521	Discounted cash flow	Discount rate	0% (0%)
Foreclosed assets held for sale	\$ 23	Market Comparable	Discount to reflect realizable value	0% - 68% (31%)

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying condensed consolidated statements of financial position at amounts other than fair value.

Cash and cash equivalents, interest-bearing deposits and Federal Home Loan Bank stock

The carrying amounts reported in the condensed consolidated statements of financial position approximate those assets' fair value.

Held-to-maturity securities

Fair value is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans

The fair value of loans is estimated by discounting the future cash flows using the market rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations. The carrying amount of accrued interest approximates its fair value.

Deposits

Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount approximates fair value. The fair value of fixed-maturity certificates of deposit is estimated by discounting the future cash flows using rates currently offered for deposits of similar remaining maturities.

Federal Home Loan Bank advances and securities sold under agreements to repurchase

The fair value of advances and securities sold under agreements to repurchase is estimated by using rates on debt with similar terms and remaining maturities.

Subordinated debentures

For these variable rate instruments, the carrying amount is a reasonable estimate of fair value. There is currently a limited market for similar debt instruments and the Company has the option to call the subordinated debentures at an amount close to its par value.

Interest payable

The carrying amount approximates fair value.

Commitments to originate loans, letters of credit and lines of credit

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit worthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

The following tables present estimated fair values of the Company's financial instruments at March 31, 2013 and December 31, 2012.

	March 31, 2013		Hierarchy
	Carrying Amount	Fair Value	Level
Financial assets:			
Cash and cash equivalents	\$ 42,694,971	\$ 42,694,971	1
Held-to-maturity securities	136,350	140,447	2
Federal Home Loan Bank stock	3,133,600	3,133,600	2
Mortgage loans held for sale	1,314,333	1,314,333	2
Loans, net	451,892,450	466,449,679	3
Interest receivable	1,925,991	1,925,991	2
Financial liabilities:			
Deposits	503,644,217	500,314,025	2
Federal Home Loan Bank advances	52,950,000	56,347,719	2
Securities sold under agreements to repurchase	25,000,000	25,120,201	2
Subordinated debentures	15,465,000	15,465,000	3
Interest payable	347,804	347,804	2
Unrecognized financial instruments (net of contractual value):			
Commitments to extend credit	-	-	-
Unused lines of credit	-	-	-

	December 31, 2012		Hierarchy Level
	Carrying Amount	Fair Value	
Financial assets:			
Cash and cash equivalents	\$41,663,405	\$41,663,405	1
Held-to-maturity securities	181,042	193,482	2
Federal Home Loan Bank stock	3,805,500	3,805,500	2
Mortgage loans held for sale	2,843,757	2,843,757	2
Loans, net	465,531,973	475,374,676	3
Interest receivable	2,055,369	2,055,369	2
Financial liabilities:			
Deposits	500,014,715	500,580,070	2
Federal Home Loan Bank advances	68,050,000	72,035,160	2
Securities sold under agreements to repurchase	25,000,000	25,114,464	2
Subordinated debentures	15,465,000	15,465,000	3
Interest payable	399,684	399,684	2
Unrecognized financial instruments (net of contractual value):			
Commitments to extend credit	-	-	-
Unused lines of credit	-	-	-

Note 9: Preferred Stock and Common Stock Warrants

On January 30, 2009, as part of the U.S. Department of the Treasury's Troubled Asset Relief Program's Capital Purchase Program ("CPP"), the Company entered into a Securities Purchase Agreement - Standard Terms with the United States Department of the Treasury (the "Treasury") pursuant to which the Company sold to the Treasury 17,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "Series A Preferred Stock") and issued a ten year warrant (the "Warrant") to purchase 459,459 shares of the Company's common stock (the "Common Stock") for \$5.55 per share (the "Warrant Shares") for a total purchase price of \$17.0 million (the "Transaction").

The Series A Preferred Stock qualifies as Tier 1 capital and is entitled to cumulative preferred dividends at a rate of 5% per year for the first five years, payable quarterly, and 9% thereafter. The Series A Preferred Stock has a liquidation preference of \$1,000 per share, plus accrued and unpaid dividends. The failure by the Company to pay a total of six quarterly dividends, whether or not consecutive, gives the holders of the Series A Preferred Stock the right to elect two directors to the Company's board of directors.

On June 13, 2012, with regulatory approval, the Company redeemed \$5 million of the Series A Preferred Stock, including accrued and unpaid dividends of \$19,444. The Company may redeem additional shares of the Series A Preferred Stock for \$1,000 per share, plus accrued and unpaid dividends, in whole or in part, subject to regulatory approval.

The Company filed a Registration Statement on Form S-1 with the Securities and Exchange Commission during the third quarter of 2012. The purpose of the filing had been to register the offering by Treasury in an auction of the remaining \$12.0 million of the Series A Preferred Stock following the June redemption. Pursuant to the agreement under which the Series A Preferred Stock had been sold to Treasury, Treasury had the right to compel the Company to register the sale by Treasury of all or any portion of the Series A Preferred Stock. After the auction terminated in accordance with its terms, Treasury decided not to accept the two bids submitted offering to purchase a portion of the Series A Preferred Stock for 92% of their liquidation value.

The Warrant is exercisable immediately upon issuance and expires in ten years. The Warrant has anti-dilution protections and certain other protections for the holder of the Warrant, as well as potential registration rights upon written request from the Treasury. The Treasury has agreed not to exercise voting rights with respect to the Warrant Shares that it may acquire upon exercise of the Warrant. If the Series A Preferred Stock is redeemed in whole, the Company has the right to purchase any shares of the Common Stock held by the Treasury at their fair market value at that time.

The Company is subject to certain contractual restrictions under the CPP and the Certificate of Designations for the Series A Preferred Stock that could prohibit the Company from declaring or paying dividends on its common stock or the Series A Preferred Stock.

The proceeds from the CPP were allocated between the Series A Preferred Stock and the Warrant based on a fair value assigned using a discounted cash flow model. This resulted in an initial value of \$15,622,189 for the Series A Preferred Stock and \$1,377,811 for the Warrant. The discount of approximately \$1.4 million on the Series A Preferred Stock is being accreted over the straight-line method (which approximates the level-yield method) over five years ending February 28, 2014.

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (the "ARRA") was signed into law. The ARRA imposes certain additional executive compensation and corporate expenditure limits on all current and future CPP recipients. These limits are in addition to those previously imposed by the Treasury under the Emergency Economic Stabilization Act of 2008 (the "EESA"). The Treasury released an interim final rule (the "IFR") on TARP standards for compensation and corporate governance on June 10, 2009, which implemented and further expanded the limitations and restrictions imposed by EESA and ARRA. The IFR applies to the Company as of the date of publication in the Federal Register on June 15, 2009, but was subject to comment which ended on August 14, 2009. The Treasury has not yet published a final version of the IFR.

As a result of the Company's participation in the CPP, the restrictions and standards established under EESA and ARRA are applicable to the Company. Neither the ARRA nor the EESA restrictions shall apply to the Company at such time that the federal government no longer holds any of the Company's Series A Preferred Stock.

Note 10: Subsequent Events

On April 29, 2013, the Treasury completed a private auction of its entire \$12.0 million interest in the Company's Series A Preferred Stock to entities unrelated to the Company. All material terms of the Certificate of Designations for the Series A Preferred Stock continue with the new entities. In accordance with the terms of its Securities Purchase Agreement, the Company has notified Treasury of its intent to repurchase the outstanding Warrant at its estimated fair market value which will be negotiated between the Company and the Treasury.

On May 10, 2013, in a series of transactions, the Company sold approximately \$1.7 million of Missouri income tax credits at a gain of approximately \$1.4 million and subsequently used the proceeds, along with available cash, to prepay one repurchase agreement totaling \$15 million, incurring a prepayment penalty of approximately \$1.5 million. The transactions allow the Company to significantly reduce higher cost, non-core funding liabilities and to reduce the Company's interest rate risk position. After the transaction, the Company had \$10 million in repurchase agreements remaining bearing a fixed rate of 2.61%.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The primary function of the Company is to monitor and oversee its investment in the Bank. The Company engages in few other activities, and the Company has no significant assets other than its investment in the Bank. As a result, the results of operations of the Company are derived primarily from operations of the Bank. The Bank's results of operations are primarily dependent on net interest margin, which is the difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities. The Bank's income is also affected by the level of its noninterest expenses, such as employee salaries and benefits, occupancy expenses and other expenses. The following discussion reviews material changes in the Company's financial condition as of March 31, 2013, and the results of operations for the three months ended March 31, 2013 and 2012.

The discussion set forth below, as well as other portions of this Form 10-Q, may contain forward-looking comments. Such comments are based upon the information currently available to management of the Company and management's perception thereof as of the date of this Form 10-Q. When used in this Form 10-Q, words such as "anticipates," "estimates," "believes," "expects," and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Such statements are subject to risks and uncertainties. Actual results of the Company's operations could materially differ from those forward-looking comments. The differences could be caused by a number of factors or combination of factors including, but not limited to: changes in demand for banking services; changes in portfolio composition; changes in management strategy; increased competition from both bank and non-bank companies; changes in the general level of interest rates; changes in general or local economic conditions; changes in federal or state regulations and legislation governing the operations of the Company or the Bank; and other factors set forth in reports and other documents filed by the Company with the SEC from time to time, including the risk factors described under Item 1A. of the Company's Form 10-K for the fiscal year ended December 31, 2012.

Financial Condition

The Company's total assets decreased \$10,460,447 (2%) from \$660,432,218 as of December 31, 2012, to \$649,971,771 as of March 31, 2013.

Available-for-sale securities increased \$5,455,295 (5%) from \$101,980,644 as of December 31, 2012, to \$107,435,939 as of March 31, 2013. The increase is primarily due to purchases of \$25.5 million offset by sales, maturities and principal payments received of \$19.6 million.

Net loans receivable decreased by \$13,639,523 (3%) from \$465,531,973 as of December 31, 2012, to \$451,892,450 as of March 31, 2013. The Company experienced certain anticipated payoffs of various commercial real estate loans. During the quarter, commercial real estate loans decreased \$13,027,389 (8%). Also, commercial loans decreased \$3,956,203 (4%), permanent multi-family loans increased \$100,317 (0%), construction loans increased \$2,946,652 (6%), loans secured by owner occupied one to four unit residential real estate decreased \$544,795 (1%) and installment loans increased \$196,644 (1%). The Company continues to focus its lending efforts in the commercial and owner occupied real estate loan categories, and to reduce its concentrations in non-owner occupied commercial real estate.

Allowance for loan losses decreased \$628,244 (7%) from \$8,740,325 as of December 31, 2012 to \$8,112,081 as of March 31, 2013. The allowance decreased due to net loan charge-offs of \$1,028,244 exceeding provision for loan losses of \$400,000 recorded during the period. Management charged off certain specific loans that had been identified and classified as impaired at December 31, 2012. See discussion under "Results of Operations – Comparison of Three

Month Periods Ended March 31, 2013 and 2012 – Provision for Loan Losses.” The allowance for loan losses, as a percentage of gross loans outstanding (excluding mortgage loans held for sale), as of March 31, 2013 and December 31, 2012 was 1.76% and 1.83%, respectively. The allowance for loan losses, as a percentage of nonperforming loans outstanding, as of March 31, 2013 and December 31, 2012 was 51.8% and 57.0%, respectively. Management believes the allowance for loan losses is at a level to be sufficient in providing for potential loan losses in the Bank’s existing loan portfolio.

Deposits increased \$3,629,502 (1%) from \$500,014,715 as of December 31, 2012, to \$503,644,217 as of March 31, 2013. For the three months ended March 31, 2013, checking and savings accounts increased by \$14.1 million and certificates of deposit decreased by \$10.5 million. The increase in checking and savings accounts was due to the Bank's continued efforts to increase core transaction deposits, both retail and commercial. See also the discussion under "Quantitative and Qualitative Disclosure about Market Risk – Asset/Liability Management."

Stockholders' equity (including unrealized appreciation on available-for-sale securities, net of tax) increased \$572,177 from \$50,868,570 as of December 31, 2012, to \$51,440,747 as of March 31, 2013. The Company's net income during this period was \$952,653. In conjunction with the Series A Preferred Stock, the Company accrued \$150,000 of dividends (5%) during the period. On a per common share basis, stockholders' equity increased from \$14.34 as of December 31, 2012 to \$14.49 as of March 31, 2013.

Average Balances, Interest and Average Yields

The Company's profitability is primarily dependent upon net interest income, which represents the difference between interest and fees earned on loans and debt and equity securities, and the cost of deposits and borrowings. Net interest income is dependent on the difference between the average balances and rates earned on interest-earning assets and the average balances and rates paid on interest-bearing liabilities. Non-interest income, non-interest expense, and income taxes also impact net income.

The following table sets forth certain information relating to the Company's average consolidated statements of financial condition and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense annualized by the average balance of assets or liabilities, respectively, for the periods shown. Average balances were derived from average daily balances. The average balance of loans includes loans on which the Company has discontinued accruing interest. The yields and costs include fees which are considered adjustments to yields. All dollar amounts are in thousands.

	Three Months ended 3/31/2013			Three Months ended 3/31/2012		
	Average Balance	Interest	Yield / Cost	Average Balance	Interest	Yield / Cost
ASSETS						
Interest-earning:						
Loans	\$ 453,545	\$ 5,928	5.23 %	\$ 474,043	\$ 6,404	5.40 %
Investment securities	104,623	433	1.65 %	87,226	412	1.89 %
Other assets	45,160	58	0.52 %	27,772	50	0.72 %
Total interest-earning	603,328	6,419	4.26 %	589,041	6,866	4.66 %
Noninterest-earning	47,697			54,515		
	\$ 651,025			\$ 643,556		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing:						
Savings accounts	\$ 24,004	14	0.23 %	\$ 21,469	23	0.43 %
Transaction accounts	280,412	379	0.54 %	263,094	568	0.86 %
Certificates of deposit	144,134	368	1.02 %	151,856	551	1.45 %
FHLB Advances	65,968	369	2.24 %	68,050	384	2.26 %
Securities sold under agreements to repurchase	25,000	164	2.62 %	25,000	184	2.94 %
Subordinated debentures	15,465	134	3.47 %	15,465	140	3.62 %
Total interest-bearing	554,983	1,428	1.03 %	544,934	1,850	1.36 %
Noninterest-bearing	44,339			43,226		
Total liabilities	599,322			588,160		
Stockholders' equity	51,703			55,396		
	\$ 651,025			\$ 643,556		
Net earning balance	\$ 48,345			\$ 44,107		
Earning yield less costing rate			3.23 %			3.30 %
Net interest income, and net interest margin on interest earning assets		\$ 4,991	3.31 %	\$ 5,016		3.41 %
Ratio of interest-earning assets to interest-bearing liabilities		109 %			108 %	

Results of Operations - Comparison of Three Month Periods Ended March 31, 2013 and 2012

Net income for the three months ended March 31, 2013 and 2012 was \$952,653 and \$834,722, respectively, which represents an increase in earnings of \$117,931 (14%).

Interest Income

Total interest income for the three months ended March 31, 2013 decreased \$446,501 (7%) as compared to the three months ended March 31, 2012. For the three month period ended March 31, 2013 compared to the same period in 2012, the average yield on interest earning assets decreased 40 basis points to 4.26%, while the average balance of interest earning assets increased approximately \$14,287,000. The Company's decrease in the average yield on interest earning assets was the continued decline of loans. Loans have declined \$15.2 million since December 31, 2012. The Company experienced certain anticipated payoffs of various commercial real estate loans.

Interest Expense

Total interest expense for the three months ended March 31, 2013 decreased \$421,996 (23%) when compared to the three months ended March 31, 2012. For the three month period ended March 31, 2013, the average cost of interest bearing liabilities decreased 33 basis points to 1.03%, and the average balance of interest bearing liabilities increased approximately \$10,049,000 when compared to the same period in 2012. The primary reason for the decrease in the average cost of interest bearing liabilities was the continued decline in higher cost certificates of deposits as well as reductions in the average rate paid on transaction deposit balances. Also, the Company reduced its FHLB advances by \$15.0 million during the latter half of the quarter.

Net Interest Income

Net interest income for the three months ended March 31, 2013 decreased \$24,505 (0%) when compared to the same period in 2012. The average balance of interest earning assets increased by approximately \$4,238,000 more than the average balance of interest bearing liabilities increased when comparing the three month period ended March 31, 2013 to the same period in 2012. For the three month period ended March 31, 2013, the net interest margin decreased 10 basis points to 3.31% when compared to the same period in 2012.

Provision for Loan Losses

Based on its internal analysis and methodology, Management recorded a provision for loan losses of \$400,000 for the three months ended March 31, 2013, compared to \$900,000 for the same period in 2012. The Bank will continue to monitor its allowance for loan losses and make future additions based on economic and regulatory conditions. Management anticipates the need to continue increasing the allowance for loan losses through charges to the provision for loan losses if anticipated growth in the Bank's loan portfolio increases or other circumstances warrant. Although the Bank maintains its allowance for loan losses at a level which it considers to be sufficient to provide for potential loan losses in its existing loan portfolio, there can be no assurance that future loan losses will not exceed internal estimates. In addition, the amount of the allowance for loan losses is subject to review by regulatory agencies which can order the establishment of additional loan loss provisions.

Noninterest Income

Noninterest income increased \$172,756 (20%) for the three months ended March 31, 2013 when compared to the three months ended March 31, 2012.

Gains on investment securities for the three months ended March 31, 2013 were \$88,801 compared to \$37,529 during the same period in 2012. Losses on foreclosed assets were \$72,345 for the quarter compared to \$101,109 for the same period in 2012. Gain on sale of loans increased \$69,579 (19%) for the three months ended March 31, 2013 when compared to the same period in 2012 due to increased volume from loan originations in the Company's mortgage division.

Noninterest Expense

Noninterest expense increased \$378,092 (9%) for the three months ended March 31, 2013 when compared to the three months ended March 31, 2012.

The primary factor for the increase in noninterest expense was a charge of \$231,000 relating to losses on three customer deposit accounts. The Company considers this a one-time charge and the Company has made a claim to its insurance carrier for a partial recovery. Also, salaries and employee benefits increased \$57,266 (2%) for the three

months ended March 31, 2013 when compared to the same period in 2012 primarily due to normal staff pay increases and increased health care costs.

Provision for Income Taxes

The increase in the provision for income taxes is a direct result of the increase in the Company's taxable income for the three months ended March 31, 2013 as compared to the three months ended March 31, 2012.

Nonperforming Assets

The allowance for loan losses is calculated based upon an evaluation of pertinent factors underlying the various types and quality of the Bank's existing loan portfolio. When making such evaluation, management considers such factors as the repayment status of its loans, the estimated net realizable value of the underlying collateral, borrowers' intent (to the extent known by the Bank) and ability to repay the loan, local economic conditions and the Bank's historical loss ratios. The allowance for loan losses, as a percentage of nonperforming loans outstanding, as of March 31, 2013 and December 31, 2012 was 51.8% and 57.0%, respectively. Total loans classified as substandard, doubtful or loss as of March 31, 2013, were \$21.2 million or 3.27% of total assets as compared to \$21.7 million, or 3.28% of total assets at December 31, 2012. Management considered nonperforming and total classified loans in evaluating the adequacy of the Bank's allowance for loan losses.

The ratio of nonperforming assets to total assets is another useful tool in evaluating exposure to credit risk. Nonperforming assets of the Bank include nonperforming loans and assets which have been acquired as a result of foreclosure or deed-in-lieu of foreclosure. All dollar amounts are in thousands.

	3/31/2013	12/31/2012	12/31/2011
Nonperforming loans	\$ 15,661	\$ 15,331	\$ 17,002
Real estate acquired in settlement of loans	3,914	4,530	10,012
Total nonperforming assets	\$ 19,575	\$ 19,861	\$ 27,014
Total nonperforming assets as a percentage of total assets	3.01 %	3.01 %	4.17 %
Allowance for loan losses	\$ 8,112	\$ 8,740	\$ 10,613
Allowance for loan losses as a percentage of gross loans	1.76 %	1.83 %	2.17 %

Liquidity and Capital Resources

Liquidity refers to the ability to manage future cash flows to meet the needs of depositors and borrowers and fund operations. Maintaining appropriate levels of liquidity allows the Company to have sufficient funds available for customer demand for loans, withdrawal of deposit balances and maturities of deposits and other liabilities. The Company's primary sources of liquidity include cash and cash equivalents, customer deposits and Federal Home Loan Bank of Des Moines borrowings. The Company also has established borrowing lines available from the Federal Reserve Bank which is considered a secondary source of funds.

The Company's most liquid assets are cash and cash equivalents, which are cash on hand, amounts due from financial institutions, and certificates of deposit with other financial institutions that have an original maturity of three months or less. The levels of such assets are dependent on the Bank's operating, financing, and investment activities at any given time. The Company's cash and cash equivalents totaled \$42,694,971 as of March 31, 2013 and \$41,663,405 as of December 31, 2012, representing an increase of \$1,031,566. The variations in levels of cash and cash equivalents are influenced by many factors but primarily loan originations and payments, deposit flows and anticipated future deposit flows, which are subject to, and influenced by, many factors.

The Bank's capital ratios are above the levels required to be considered a well-capitalized financial institution. As of March 31, 2013, the Bank's Tier 1 leverage ratio was 9.77%, its Tier 1 risk-based capital ratio was 13.10% and the

Bank's total risk-based capital ratio was 14.35% - all exceeding the minimums of 5%, 6% and 10%, respectively.

With regards to the Series A Preferred Stock, if the Company is unable to redeem the stock by January 2014, the cost of capital to the Company will increase significantly from 5% per annum (\$600,000 annually) to 9% per annum (\$1,080,000 annually). Depending on the Company's financial condition at the time, the increase in the annual dividend rate on the Series A Preferred Stock could have a material adverse effect on the Company's liquidity and net income available to common stockholders.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Asset/Liability Management

The goal of the Bank's asset/liability policy is to manage interest rate risk so as to maximize net interest income over time in changing interest rate environments. Management monitors the Bank's net interest spreads (the difference between yields received on assets and paid on liabilities) and, although constrained by market conditions, economic conditions, and prudent underwriting standards, the Bank offers deposit rates and loan rates designed to maximize net interest income. Management also attempts to fund the Bank's assets with liabilities of a comparable duration to minimize the impact of changing interest rates on the Bank's net interest income. Since the relative spread between financial assets and liabilities is constantly changing, the Bank's current net interest income may not be an indication of future net interest income.

As a part of its asset and liability management strategy and throughout the past several years, the Bank has continued to emphasize the origination of short-term commercial real estate, commercial business and consumer loans, while originating fixed-rate, one- to four-family residential loans primarily for immediate resale in the secondary market.

The Bank constantly monitors its deposits in an effort to decrease their interest rate sensitivity. Rates of interest paid on deposits at the Bank are priced competitively in order to meet the Bank's asset/liability management objectives and spread requirements. The Bank believes, based on historical experience, that a substantial portion of such accounts represents non-interest rate sensitive core deposits.

Interest Rate Sensitivity Analysis

The following table sets forth as of March 31, 2013 management's estimates of the projected changes in net portfolio value ("NPV") in the event of 100 and 200 basis point ("bp") instantaneous and permanent increases and decreases in market interest rates. Dollar amounts are expressed in thousands.

BP Change in Rates	Estimated Net Portfolio Value			NPV as % of PV of Assets			
	\$ Amount	\$ Change	% Change	NPV Ratio	Change		
+200	\$ 62,753	\$ 144	0 %	9.82 %	0.33 %		
+100	61,745	(865)	-1 %	9.52 %	0.04 %		
NC	62,610	-	0 %	9.48 %	0.00 %		
-100	63,212	602	1 %	9.40 %	-0.08 %		
-200	71,207	8,597	14 %	10.39 %	0.91 %		

Computations of prospective effects of hypothetical interest rate changes are based on an internally generated model using actual maturity and repricing schedules for the Bank's loans and deposits, and are based on numerous assumptions, including relative levels of market interest rates, loan repayments and deposit run-offs, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions the Bank may undertake in response to changes in interest rates. For further discussion of the Company's market risk, see the Interest Rate Sensitivity Analysis Section of Management's Discussion and Analysis of Financial Condition and Results of

Operations included in the Company's 2012 Annual Report on Form 10-K.

Management cannot predict future interest rates or their effect on the Bank's NPV in the future. Certain shortcomings are inherent in the method of analysis presented in the computation of NPV. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in differing degrees to changes in market interest rates. Additionally, certain assets, such as adjustable-rate loans, have an initial fixed rate period typically from one to five years, and over the remaining life of the asset changes in the interest rate are restricted. In addition, the proportion of adjustable-rate loans in the Bank's portfolio could decrease in future periods due to refinancing activity if market interest rates remain steady in the future. Further, in the event of a change in interest rates, prepayment and early withdrawal levels could deviate significantly from those assumed in the table. Finally, the ability of many borrowers to service their adjustable-rate debt may decrease in the event of an interest rate increase.

The Bank's Board of Directors (the "Board") is responsible for reviewing the Bank's asset and liability management policies. The Board meets quarterly to review interest rate risk and trends, as well as liquidity and capital ratios and requirements. The Bank's management is responsible for administering the policies and determinations of the Board with respect to the Bank's asset and liability goals and strategies.

Item 4. Controls and Procedures

(a) The Company maintains disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company conducted an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of March 31, 2013.

(b) There have been no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

Not applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes the Company's repurchase activity regarding its common stock during the Company's first quarter ended March 31, 2013.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1, 2013 to January 31, 2013	-	-	-	185,510
February 1, 2013 to February 28, 2013	-	-	-	185,510
March 1, 2013 to March 31, 2013	8,826	\$ 9.70	8,826	176,684
Total	8,826	\$ 9.70	8,826	

(1) The Company has a repurchase plan which was announced on August 20, 2007. This plan authorizes the purchase by the Company of up to 350,000 shares of the Company's common stock. There is no expiration date for this plan. There are no other repurchase plans in effect at this time.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On April 29, 2013, the Treasury completed a private auction of its entire \$12.0 million interest in the Company's Series A Preferred Stock to entities unrelated to the Company. All material terms of the Certificate of Designations for the Series A Preferred Stock continue with the new entities. In accordance with the terms of its Securities Purchase Agreement, the Company has notified the Treasury of its intent to repurchase the outstanding Warrant at its estimated fair market value which will be negotiated between the Company and the Treasury.

Item 6. Exhibits

- 10.1 Written Description of 2013 Executive Incentive Compensation Annual Plan – President and Chief Executive Officer* (1)
- 10.2 Written Description of 2013 Executive Incentive Compensation Annual Plan – Chief Financial Officer* (2)
- 10.3 Written Description of 2013 Executive Incentive Compensation Annual Plan – Chief Operating Officer* (3)
- 10.4 Written Description of 2013 Executive Incentive Compensation Annual Plan – Chief Lending Officer* (4)
- 10.5 Written Description of 2013 Executive Incentive Compensation Annual Plan – Chief Credit Officer* (5)
- 11. Statement re: computation of per share earnings (set forth in “Note 6: Income Per Common Share” of the Notes to Condensed Consolidated Financial Statement (unaudited))
 - 31(i).1 Certification of the Principal Executive Officer pursuant to Rule 13a -14(a) of the Exchange Act
 - 31(i).2 Certification of the Principal Financial Officer pursuant to Rule 13a - 14(a) of the Exchange Act
 - 32.1 CEO certification pursuant to 18 U.S.C. Section 1350
 - 32.2 CFO certification pursuant to 18 U.S.C. Section 1350
- 101 The following materials from Guaranty Federal Bancshares, Inc.’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Statements of Financial Condition (unaudited), (ii) Condensed Consolidated Statements of Operations (unaudited), (iii) Condensed Consolidated Statements of Comprehensive Income (Loss) (unaudited), (iv) Condensed Consolidated Statement of Stockholders’ Equity (unaudited), (v) the Consolidated Statements of Cash Flows (unaudited), and (vi) related notes.**

*Management contract or compensatory plan or arrangement

**Pursuant to Regulation S-T, the interactive data files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

-
- (1) Filed as Exhibit 10.1 to the Current Report on Form 8-K filed by the Registrant on February 8, 2013 and incorporated herein by reference.
 - (2) Filed as Exhibit 10.2 to the Current Report on Form 8-K filed by the Registrant on February 8, 2013 and incorporated herein by reference.
 - (3) Filed as Exhibit 10.3 to the Current Report on Form 8-K filed by the Registrant on February 8, 2013 and incorporated herein by reference.
 - (4) Filed as Exhibit 10.4 to the Current Report on Form 8-K filed by the Registrant on February 8, 2013 and incorporated herein by reference.
 - (5) Filed as Exhibit 10.5 to the Current Report on Form 8-K filed by the Registrant on February 8, 2013 and incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Guaranty Federal Bancshares, Inc.

Signature and Title

Date

/s/ Shaun A. Burke
Shaun A. Burke
President and Chief Executive Officer
(Principal Executive Officer and Duly Authorized
Officer)

May 10, 2013

/s/ Carter Peters
Carter Peters
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

May 10, 2013